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# MEMORANDUM

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Date: May 30, 2017

To: The Honorable Chair and Members  
Pima County Board of Supervisors

From: C.H. Huckelberry  
County Administrator 

Re: **Transportation Funding**

During discussion regarding adoption of the Fiscal Year 2017/18 Tentative Budget, several questions and/or issues were raised regarding transportation funding and the use of County Highway User Revenue Funds (HURF) and Vehicle License Tax (VLT) funds for transportation, as well as the General Fund. My February 1, 2017 memorandum to the Board of Supervisors thoroughly explained the difference between these two VLT revenues (Attachment 1).

Clearly, the only VLT funds available for transportation are those designated by statute. The VLT for the General Fund is specifically segregated and intended, by statute, for use in the County's General Fund.

A question also arose regarding the use of County HURF as well as transportation designated VLT, and the purposes for which these funds are used within the Transportation Department. There was also discussion regarding requiring all HURF and VLT revenues for transportation to be spent on road repair and maintenance. All other 15 counties and all cities and towns use HURF funds and transportation-designated VLT for all transportation purposes, including the payment of personnel salaries, etc. The only exception is the Town of Marana, which has begun to pay the salaries for its Transportation Department employees with Town of Marana General Funds, which are exclusively sales taxes.

The Arizona Department of Transportation (ADOT), of which Supervisor Steve Christy was a Board member, spends its HURF and VLT for all transportation purposes, including paying all ADOT staff salaries, contributions to risk management funds and for HURF-related debt service. I believe you will not find any cities, towns, counties or State use of HURF and VLT transportation revenues exclusively for road repair and maintenance.

I have asked the County Supervisors Association to conduct a survey of the other 15 counties in Arizona to determine their uses of HURF and VLT. I believe it will be similar to the survey conducted by Pima County and attached in my March 21, 2016 memorandum to the Board (Attachment 2).

The Honorable Chair and Members, Pima County Board of Supervisors  
Re: **Transportation Funding**  
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In addition, we will survey the counties to determine if they would support modifying HURF and transportation-related VLT statutes to require that these revenues be used exclusively for road repair and maintenance.

CHH/anc

Attachment

c: Jan Leshar, Chief Deputy County Administrator  
Carmine DeBonis, Jr., Deputy County Administrator for Public Works  
Tom Burke, Deputy County Administrator for Administration  
Priscilla Cornelio, Director, Transportation Department

# ATTACHMENT 1



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# MEMORANDUM

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Date: February 1, 2017

To: The Honorable Chair and Members  
Pima County Board of Supervisors

From: C.H. Huckelberry  
County Administrator 

Re: Use of Highway User Revenue and Vehicle License Tax Funds

Questions have previously been raised regarding the amount of funding available to the Department of Transportation (DOT) from State-shared revenues. The total amount of funding available has either been misinterpreted or misconstrued to inflate the amount of funds available to the Department.

During Board discussions of the Fiscal Year 2016/17 Tentative Budget, Supervisor Miller stated on her website, "In 2014/15, the County received \$78.1 million from the various distributions of HURF and VLT from the State." I clarified this misleading statement regarding the purposes for which VLT is distributed in my May 26, 2016 memorandum to the Board:

*"The implication is that the County had sufficient funds to maintain our roadways. What Supervisor Miller failed to state on her County website is the source of the \$78 million number. This number is the total distribution, not the total distribution available for transportation purposes. The transportation distribution for FY 2014/15 remains at \$52.4 million, which has been stated on numerous occasions. The other Vehicle License Tax (VLT) distribution is made specifically by the Arizona Constitution to the County General Fund and is not for transportation purposes. Supervisor Miller's statement is very misleading and is intended to draw the conclusion the County is capable of road repairs without bonds and/or an increase in gas taxes or other transportation-related revenues. Spending General Fund VLT on roads in the unincorporated area suffers the same tax inequity with City residents as when we spend General Fund property tax revenue for County road repairs."*

This issue arose again recently, partly in response to the County's inability to allocate significant new revenues to pavement rehabilitation and repair.

As you can see from the attached spreadsheet, the total amount of revenues available to the Department of Transportation (DOT) to build, operate and maintain the highway system in the unincorporated area of Pima County is \$60.3 million; not the \$78.1 million previously misreported or misstated.

The statement attempts to construe that the Vehicle License Tax (VLT) distribution to the County General Fund should be used for transportation. On the contrary, any use of any VLT for transportation is only a recent statutory change by the Arizona Legislature. The VLT was

first enacted by a Constitutional Amendment in 1940; and it was initially directed to the State General Fund and the general funds of the counties, cities and towns for general government purposes and to local school districts. In 1974, the Legislature changed the distribution to transfer county school funds to the State school fund and, in 1976, eliminated the State School Fund. That distribution was directed to the State General Fund. Hence, there is very clear statutory history and State law that allocates VLT to the State General Fund, as well as the general funds of counties, cities and towns.

The next largest use of County HURF (after the \$27 million in VLT for the General Fund) is \$19.2 million for debt service, which repays capital debt associated with major transportation roadway widening, two-thirds of which occurred in Supervisorial District 1.

In addition, based on the advent of the Regional Transportation Authority (RTA), the County transferred our public transit program to the RTA to operate public transit in the unincorporated area of the County. State statute sets this transfer, and it increases in accordance with the Consumer Price Index. The amount is currently \$6,249,415, regardless of whether transit service cost in the unincorporated area increases or decreases. Recently, the County was required to develop and construct a bus stop at Sabino Canyon and Cloud Roads as a condition of zoning approval based on transit service along Sabino Canyon. The City of Tucson and RTA recently eliminated this transit service; hence, the County is paying more for public transit services in the unincorporated area and receiving less service.

What is important in this programmatic expenditure breakdown is the amount spent on highway maintenance, whether for general road maintenance or maintenance of traffic signs and traffic signals. This totals over \$22 million, the largest single expenditure of the DOT.

We hope that in the future, State diversion of HURF would continue to decrease and, thereby, add to our ability to repair our roadways. Previously, when the Legislature reduced this diversion, the County was able to increase our investment in pavement maintenance and repair. Unfortunately, the Governor's budget this year actually proposes to divert more money from HURF into the State General Fund, which reverses any progress we have made in increasing funds for highway maintenance and pavement repair.

The revenue sources and amounts available to the DOT are solely controlled by the State, specifically the State Legislature. It continues to appear unlikely there will be any significant major increases in these revenue sources, which means we will continue to struggle with how to repair and maintain our local highways.

CHH/mjk  
Attachment

c: Carmine DeBonis, Jr., Interim Deputy County Administrator for Public Works  
Tom Burke, Deputy County Administrator for Administration  
Nanette Slusser, Assistant County Administrator for Public Works  
Priscilla Cornelio, Director, Transportation  
Keith Dommer, Director, Finance and Risk Management  
Robert Johnson, Budget Manager, Finance and Risk Management

**Pima County Response to Call to the  
Public  
Transportation HURF and VLT  
FY 2016/17 Adopted Budget (excludes Grants)**

<b>By Program Fund Sources</b>	<b>Amount</b>	<b>Note</b>
HURF	45,250,000	1
VLT for Transportation Fund	13,200,000	
VLT for General Fund	27,000,000	2
Subtotal	85,450,000	
Removal of VLT for General Fund	(27,000,000)	
Other Transportation Revenue	1,897,896	
<b>Total Revenue</b>	<b>60,347,896</b>	
Operating Transfers-In		
Graffiti Abatement from General Fund	120,662	
Other from Other Fund	1,137	
<b>Total Operating Transfers-In</b>	<b>121,799</b>	
<b>Total Fund Sources</b>	<b>60,469,695</b>	
<b>Fund Uses</b>		
Operating Transfers-Out		
Debt	19,224,299	3
Capital Projects/Pavement Preservation	5,250,000	4
Other	38,809	
<b>Total Operating Transfers-Out</b>	<b>24,513,108</b>	
Operations Budget		
Payment to RTA for Public Transit	6,249,415	5
Transportation Engineering	377,631	
Administrative	163,505	
Transportation Systems	1,216,286	
Director's Office	4,183,227	6
County Overhead	2,984,667	
Public Works Admin. Overhead	661,473	
Insurance	1,289,863	
Field Engineering	1,860,279	
Maintenance Operations	15,601,941	7
Traffic Engineering Services	6,570,232	7
CIP Programming - Ops	234,866	
<b>Total Operations Budget</b>	<b>41,393,385</b>	
<b>Total Fund Uses</b>	<b>65,906,493</b>	
<b>Fund Surplus (Deficit)</b>	<b>(5,436,798)</b>	
<b>Beginning Fund Balance (Actual)</b>	<b>6,838,064</b>	
<b>Ending Fund Balance</b>	<b>1,401,266</b>	

## **Notes**

<sup>1</sup> The State of Arizona taxes motor fuels and imposes various fees related to the registration and operation of motor vehicles. Included are motor vehicle fuel taxes, use fuel taxes, vehicle license taxes, motor carrier fees, vehicle registration fees, driver licenses, and other miscellaneous vehicle operation fees. Depending on the category, all or a portion of these taxes and fees are distributed to the Highway User Revenue Fund (HURF), which was first established by the Legislature in 1974. Article IX, Section 14 of the Arizona Constitution requires HURF monies be expended only for purposes directly related to highways or streets, such as right of way acquisition, construction, reconstruction, maintenance, repair, roadside development, and payment of principal and interest on highway and street bonds. The Arizona Attorney General has advised that HURF monies may be used for any activity having a specific highway or street purpose, even if the activity is not specially enumerated in Article IX, Section 14. Each year, counties file financial information verifying HURF revenues received are used solely for authorized transportation purposes.

<sup>2</sup> The Vehicle License Tax (VLT) was enacted by voters at the General Election of November 5, 1940 as an amendment to Article IX, Section 11 of the Arizona Constitution. Previously known as the Auto Lieu Tax, it was a tax on the value of vehicle personal property, with the tax rate being the average of the combined state and local property tax rates for all taxing districts during the preceding year, not to exceed \$4.00 per \$100 of value. The tax was collected at the time of vehicle registration, with the Legislature directing distribution of the tax to the State General Fund and the general funds of the counties, cities and towns for general government purposes, and to local school districts. Only a small amount of taxes collected from motor carriers operating in interstate commerce was earmarked for highway maintenance and construction. Article IX, Section 11 was later amended to exempt mobile homes from VLT when the mobile home was subject to general property taxes. The Legislature changed the distribution in 1974 from County School Funds to the State School Fund, and in 1976 changed the distribution to the State General Fund for school finance assistance when the State School Fund was eliminated. In 1977, the Arizona Department of Transportation was authorized to take over responsibility for the collection of VLT from county assessors. In 1980, 12 percent of VLT collections was first directed to the HURF. The Legislature increased the distribution to HURF to its current 31.5 percent during a 1981 Special Session.

<sup>3</sup> Principal and interest payments on the issuance of up to \$350 million in HURF bonds authorized by the voters in 1997 for primarily arterial street and highway widening projects throughout the County, including specific roadways within the City of Tucson.

<sup>4</sup> This year, \$4.5 million of this fund was allocated to pavement repair and rehabilitation, confined primarily to arterial and collector streets and highways in the unincorporated area.

<sup>5</sup> This transfer is set by State statute and increases in accordance with the Consumer Price Index. It is now \$6,249,415, regardless of whether transit service increases or decreases in the unincorporated area.

<sup>6</sup> The \$4,183,227 in the Director's office is broken down into several different categories. \$1.19 million is for personnel costs. \$718,000 is Information Technology Department charges for radios, computers, server storage and software for the entire Department of Transportation (DOT). \$563,000 was budgeted for Repair and Maintenance (R and M) objects to cover supplies provided by the department for building and site repairs, including graffiti cleanup.

R and M Machinery and Equipment includes Fleet Services special billing charges, fire extinguisher services and copier meter readings for the Director's office. R and M Building Services includes janitorial, pest control and services for the cleanup of graffiti in the community. R and M Grounds and Landscaping is the final expense in the R and M objects category. Utilities account for approximately \$300,000 of the \$4.1 million budgeted. Leases and Rentals of \$219,000 are primarily for the Department's portion of the rental of the Public Works Building. \$147,000 is for typical operating expenses such as office supplies, software, small computer equipment, postage and freight, printing, security and motor pool. The remaining \$326,000 covers a regional planning contract with the Pima Association of Governments and the overhead portion of the Memorandum of Understanding with the Department of Environmental Quality, as well as lobbying, outside legal counsel and staff training.

<sup>7</sup> These two major divisions of DOT account for \$22 million of their annual expenditures. These divisions are primarily responsible for the maintenance and operation of the transportation system in the unincorporated area of Pima County.

# ATTACHMENT 2



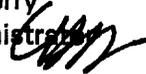
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# MEMORANDUM

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Date: March 21, 2016

To: The Honorable Chair and Members  
Pima County Board of Supervisors

From: C.H. Huckelberry  
County Administrator 

Re: **Department of Transportation Fiscal Year (FY) 2016 Adopted Budget Comparisons of Pima, Maricopa and Pinal Counties**

Attached is a direct comparison of Department of Transportation (DOT) revenues, expenditures, number of employees, unincorporated population, County area, and a number of other budgeted expenditures of each of these counties in the area of transportation, operation and maintenance, and capital expenditures.

A review of the revenue component of this comparison indicates there are dramatic differences in the revenues available to each county for transportation purposes. While total revenues for Pima County are nearly \$55 million, they are significantly less than the \$138 million available for Maricopa County. Pinal County has available revenues of \$37 million.

Only Pima County has used County General Funds in FY16 to support their transportation agency. Neither Maricopa nor Pinal Counties have utilized General Funds to support their Transportation Department. All three counties spend their Highway User Revenue Funds (HURF) or Vehicle License Taxes (VLT) on personnel and operating expenses, including maintenance.

Maricopa County employs the most employees in their Transportation Department at 416, compared to Pima County's 293; even though Pima County has an unincorporated population of approximately 354,000 compared to Maricopa County's 284,000. Costs per employee (FTE) are equitably close, with Maricopa County being \$73,927/FTE, Pima County \$68,608/FTE, and Pinal \$63,122. This puts Pima County at 8 percent below Maricopa and 8 percent higher than Pinal.

Pinal County has a sales tax dedicated to their transportation capital improvements, as well as for pavement preservation. Neither Pima County nor Maricopa County has a direct sales tax for this purpose.

Other observations are as follows:

1. Pima County expends \$6.4 million for transit services, while neither Maricopa nor Pinal have to devote any share of HURF/VLT monies for such purposes.

The Honorable Chair and Members, Pima County Board of Supervisors  
**Re: Department of Transportation Fiscal Year (FY) 2016 Adopted Budget Comparisons of  
Pima, Maricopa and Pinal Counties**

March 21, 2016

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2. Pinal County's significant amount of unpaved road mileage (1,043 miles) compared to both Pima (300 miles) and Maricopa (416 miles) requires a significant expenditure for added equipment and material (\$16 million versus \$9.6 million for Pima County) to address dirt road maintenance needs. However, even though Maricopa County has 40 percent of the unpaved road mileage of Pinal, their maintenance operating expenses are 20 percent greater than Pinal County's.
3. Capital expenses from operating revenues in the maintenance area are lower for Pima County by 80 percent compared to Maricopa County and 60 percent lower compared to Pinal County. Such expenditures on a "pay as you go" basis are typically for added or replaced equipment or for contracted pavement preservation.

We have heard claims that Pima County does not spend its HURF or VLT for transportation purposes. Such is incorrect. Every dollar is spent to operate, maintain and construct a transportation system; and with limited revenues, we struggle to provide the level of service of our neighboring counties to the north.

CHH/lab

Attachment

c: John Bernal, Deputy County Administrator for Public Works  
Nanette Slusser, Assistant County Administrator for Policy, Public Works  
Priscilla Cornelio, Director, Transportation Department

<b>FY16 Transportation</b>	<b>Pima County (PM)</b>	<b>Maricopa County (MA)</b>	<b>Pinal County (PN)</b>	<b>notes</b>
<b>Adopted Budget</b>				
Population, Total County	980,263	3,817,117	375,770	2010 Census
Population, Unincorporated County	353,264	284,404	204,925	2010 Census
Mile of Roads Maintained	2,300	2,482	2,071	PM10, MA04, PN03
Total Area of County	9,187	9,224	5,374	
Transportation Department Staff size (FTE's)	293	416	164	
FY16 - Adopted CIP Budget	41,892,895	94,370,570	15,000,000	PN07
<b>REVENUES</b>				
Highway User Revenue Funds (HURF)	40,580,771	98,175,564	18,345,856	
VLT	12,424,914	8,808,030	6,826,596	Based on unincorporated population
Other Operations Revenues	1,876,599	31,434,089	3,811,677	PM01, MA01, PN04
Local Taxes	-	-	7,300,000	PN01
Special Revenues for Pavement Preservation	-	-	500,000	PN01, PN05
Other	-	-	307,500	PN06
<b>SUBTOTALS =</b>	<b>54,882,284</b>	<b>138,417,683</b>	<b>37,091,629</b>	
General Fund Transfers In	121,678	-	-	PM02
<b>TOTAL REVENUES =</b>	<b>55,003,962</b>	<b>138,417,683</b>	<b>37,091,629</b>	
<b>EXPENDITURES</b>				
Department Management/Administration	5,476,230	7,079,579	8,237,945	
Self-Insurance Fund (Premiums)	1,696,674	818,435	-	
Engineering, Transp. Systems, CIP Divisions	-	-	-	
Operating Expenses	293,250	490,424	-	
Capital Expenditures (over \$5,000)	-	-	-	
Field Engineering Division	-	-	-	
Operating Expenses	778,365	3,115,155	-	PM03, PN02, MA02/MA05
Capital Expenditures (over \$5,000)	71,596	-	-	
Maintenance & Operations Division	-	-	-	
Operating Expenses	9,624,400	18,135,937	15,975,200	
Capital Expenditures (over \$5,000)	610,765	3,444,550	1,500,000	
Traffic Engineering Division	-	-	-	
Operating Expenses	2,085,156	1,934,341	-	
Capital Expenditures (over \$5,000)	222,027	-	-	PM03
Pavement Preservation funded by Special Revenues	-	-	3,125,000	PN01
Employee Compensation	20,102,112	24,191,717	10,352,046	PM04, PN10
Transit and Special Needs	6,379,801	-	-	PM05
Other	-	-	-	
Other	-	-	-	MA03
<b>SUBTOTALS =</b>	<b>47,340,376</b>	<b>59,210,138</b>	<b>39,190,191</b>	
Charges Out: Personnel Svcs & Operat'g Expenditures	(15,123,192)	(4,341,970)	-	PM06
Charges In: Personnel Svcs & Operat'g Expenditures	7,483,432	5,859,738	-	PM07
Transfer Out: Capital Improvement Program	107,000	70,403,183	7,083,622	
Transfer Out: Other	128,454	23,967,387	135,000	PM08, PN09
Debt Service, Transportation Bonds	18,561,408	-	-	
Debt Service: Other	227,552	-	3,940,152	PM09, PN08
<b>SUBTOTALS =</b>	<b>11,384,654</b>	<b>95,888,338</b>	<b>11,158,774</b>	
<b>TOTAL EXPENDITURES =</b>	<b>58,725,030</b>	<b>155,098,476</b>	<b>50,348,965</b>	

**NOTES**

<p><b>PM01:</b> Includes Licenses &amp; Permits, Federal Revenue, State Revenue, City Revenue, Government Fees, Highway &amp; Streets Fees, Impact Fees, Interest Rev - Pooled, Rents and Royalties, Other Misc. Revenues, &amp; Sale of Assets</p> <p><b>PM02:</b> Graffiti Abatement, Regional Wastewater Reclamation Dept., etc.</p> <p><b>PM03:</b> Negative amount because of division's CIP reimbursements.</p> <p><b>PM04:</b> Salaries plus benefits</p> <p><b>PM05:</b> Transit IGA w/PAG that includes Special Needs.</p> <p><b>PM06:</b> Includes Interdepartmental Supplies &amp; Services Credit, Departmental Overhead Credit, Interdepartmental Salary &amp; Fringe Benefit Credits, plus Labor Distribution Salary &amp; Fringe Benefit Credits.</p> <p><b>PM07:</b> Includes Labor Distribution Salary &amp; Fringe Benefit Debits plus Interdepartmental Supplies &amp; Services Debit</p> <p><b>PM08:</b> Includes Permits Mgmt. Systems, Native Plant Nursery, Transportation Grants</p> <p><b>PM09:</b> COPS, Fiscal Charges</p> <p><b>PM10:</b> 2000 miles paved, 300 miles unpaved</p> <p><b>MA01:</b> Includes Licenses &amp; Permits (\$935,311), Grants (\$18,964,057), Interest Earnings (\$500,000), Gain on Fixed Assets (\$200,000), Intergov Charges for Services (\$10,663,300), &amp; Other Misc. Revenues (\$171,421)</p> <p><b>MA02:</b> Permitting, Construction &amp; Inspection Costs. Other staff construction costs do occur within the Engineering staff.</p> <p><b>MA03:</b> Total CIP budget equals \$94,370,570</p> <p><b>MA04:</b> 2066 miles paved, 416 miles unpaved</p> <p><b>MA05:</b> Construction expenditures are charged to the specific projects.</p>	<p><b>PN01:</b> Transportation Excise Tax, Development Fees - FY16 Budget is for \$7.3M in revenues of which \$5.55M goes directly to CIP and \$1.75M is used for Pavement Preservation.</p> <p><b>PN02:</b> Limited Field Inspection work is done by Pinal Co. &amp; associated costs typically charged to the Dept., not the CIP project.</p> <p><b>PN03:</b> 1,028 paved, 1043 unpaved</p> <p><b>PN04:</b> National Forest Fees, Misc., Leased Equipment, Grants, &amp; Impact Fees</p> <p><b>PN05:</b> Development Fees</p> <p><b>PN06:</b> Grants, Interest</p> <p><b>PN07:</b> Project budget \$30M estimated split 50/50 between maintenance &amp; CIP.</p> <p><b>PN08:</b> GADA Bonds and Equipment lease to purchase</p> <p><b>PN09:</b> Emergency Management Program</p> <p><b>PN10:</b> Salaries plus benefits</p>
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